

Managed Competition Pre-competition Assessment Report

Environmental Services Department:
Solid Waste Collection and Support Services

September 27, 2012

The Pre-competition Assessment Report was prepared in accordance with the Managed Competition Guide dated July 26, 2010. The report was prepared by the Business Office with assistance from subject matter experts from the Environmental Services Department.



Wally Hill
Assistant Chief Operating Officer

CONTENTS

I.	INTRODUCTION	3
II.	OVERVIEW OF FUNCTION	3
A.	BACKGROUND.....	3
B.	SCOPE OF WORK AND GROUPING OF TASKS AND ACTIVITIES	5
III.	ANALYSIS OF ELIGIBILITY AND APPROPRIATENESS FOR COMPETITION	10
A.	INHERENTLY GOVERNMENTAL DETERMINATION	11
B.	LEGAL LIMITATIONS.....	11
C.	AVAILABILITY OF ALTERNATIVES.....	12
D.	EFFICIENCY & ECONOMIC GAIN	13
E.	RISKS TO COMPETITION	16
F.	WORKLOAD, PERFORMANCE, AND PROPERTY DATA ASSESSMENT	18
IV.	CONCLUSION.....	19
	APPENDIX 1: COMPETITION RESEARCH.....	20

I. INTRODUCTION

Managed competition is a structured, transparent process that allows public sector employees to be openly and fairly compared with independent contractors for the right to deliver services. This strategy recognizes the high quality and potential of public sector employees and seeks to tap their creativity, experience and resourcefulness by giving them the opportunity to structure organizations and processes in ways similar to best practices in competitive businesses, yet still compatible with public sector realities.

The first step in managed competition is to conduct a Pre-competition Assessment (PCA) to evaluate whether a function is eligible and appropriate for competition. The purpose of this report is to document the PCA of Solid Waste Collection and Support Services functions.

II. OVERVIEW OF FUNCTION

A. Background

The Environmental Services Department (ESD) ensures that all residents of San Diego are provided with a clean, safe, and ecologically-sound environment. ESD is organized into four divisions:

- The Collection Services Division provides weekly residential refuse collection, bi-weekly curbside collection of recyclable commodities and greens materials, and the collection and maintenance of street litter containers in business districts. The Division also procures, delivers and maintains City owned automated refuse, recycling and greenery containers.
- The Waste Reduction and Disposal Division provides waste reduction and recycling education, technical assistance, and programs to residents and business owners within the City of San Diego. The Division enforces solid waste and recycling provisions of the Municipal Code, conducts illegal dump abatements and community clean ups, operates a full service landfill and organic recycling facility for public use, and maintains eight closed landfills and eight inactive burn sites.
- The Energy, Sustainability, and Environmental Protection Division manages the City's energy demand and conservation programs and explores innovative options to increase energy independence; supports regulatory compliance at City facilities, and works to advance more sustainable practices within the City and community. This is accomplished through technical assistance and project implementation for energy conservation and renewable energy, hazardous materials management, underground storage tank engineering, lead and asbestos compliance, hazardous substances enforcement at the Miramar Landfill, household hazardous waste collection, and the San Diego Sustainable Community Program.
- The Office of the Director facilitates the Department's delivery of quality environmental programs through the provision of administrative and regulatory support, community outreach and education, franchise and fiscal management, facility maintenance, human resources and training, information system management, customer service, and safety programs focusing on accident and injury prevention.

Figure 1 depicts the organizational structure of Environmental Services Department. The Solid Waste Collection and Support Services functions that make up the scope of this PCA report are shown in **bold red font**.

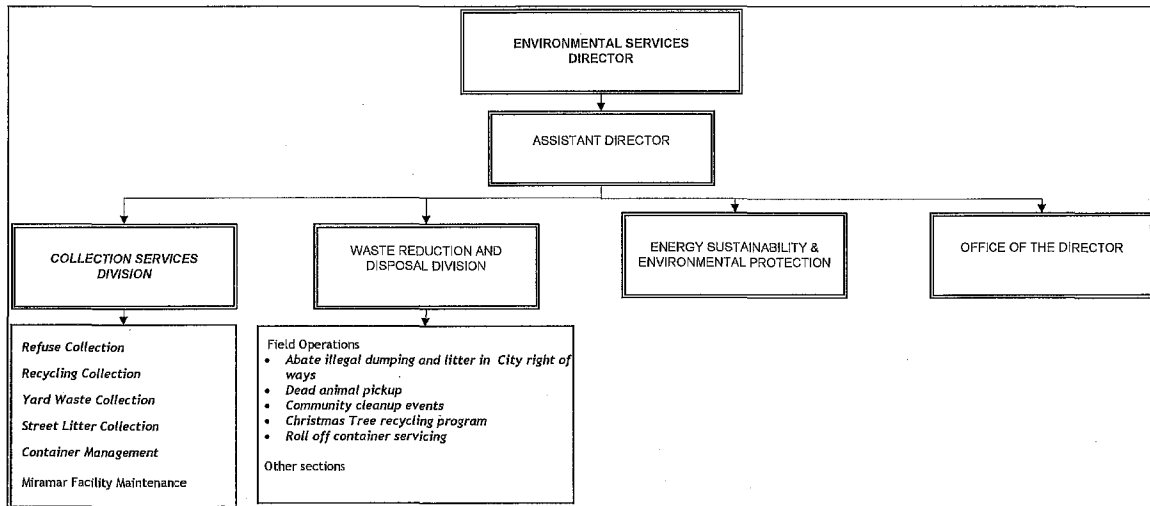


Figure 1: ESD Organizational Chart

In Fiscal Year (FY) 2013, the Solid Waste Collection and Support Services are performed by **REDACTED** Full Time Equivalent (FTE) staff in the Collection Services Division and the Waste Reduction and Disposal Division. Table 1 (below) displays the FYs 2011 through 2013 staffing for the function.

Job Title	FY 2013 FTE (budgeted)	FY 2012 FTE (actual)	FY 2011 FTE (actual)
Area Refuse Collection Supervisor ¹			
Cashier			
Dist. Refuse Collection Supervisor			
Equipment Operator 1			
General Utility Supervisor			
Heavy Truck Driver 2			
Public Works Supervisor			
Sanitation Driver 3			
Sanitation Driver 2 ²			
Sanitation Driver 1			
Utility Worker 2			
Utility Worker 1			
Total			

Table 1: Solid Waste Collection Staffing³

¹ FY 2012 and 2013 include provisional employees

² FY 2012 and 2013 include provisional employees

³ Source: City of San Diego Financial Management Information System

B. Scope of Work and Grouping of Tasks and Activities

A critical step of the PCA process involves 'scoping and grouping,' defining the activities and tasks that comprise a function and determining whether they are suitable for competitive procurement together, individually, or not at all. A high-level Work Breakdown Structure (WBS) is provided in Table 2 for Solid Waste Collection and Support Services functions. This WBS will be broken into greater detail in subsequent steps in the managed competition process.

Solid Waste Collection & Support Services	
1.0	Residential Trash Collection
1.1	Inspect, maintain, and wash vehicle
1.2	Drive and operate vehicle on route
1.3	Collect refuse and transport it to landfill
1.4	Dispose of refuse at landfill
1.5	Provide customer service and education
1.6	Provide specialized services
2.0	Residential Recycling Collection
2.1	Inspect, maintain and wash vehicle
2.2	Drive and operate vehicle on route
2.3	Collect recyclables
2.4	Transport and deliver recyclables to recycling centers
2.5	Provide customer service and education
2.6	Provide specialized customer service
3.0	Residential Yard Waste Collection
3.1	Inspect, maintain, and wash vehicle
3.2	Drive and operate vehicle on route
3.3	Collect yard waste
3.4	Remove contamination
3.5	Transport and deliver yard waste to landfill greenery for processing
3.6	Provide customer service and education
3.7	Provide specialized customer service
4.0	Automated Cart Services
4.1	Maintain Inventory
4.2	Container Purchases and Assembly
4.3	Container Sales
4.4	Container Delivery and Repairs
4.5	Disposal/Recycling of Damaged Containers
4.6	Fee calculation, collection and accounting
5.0	Street Litter Container Collection
5.1	Inspect, maintain and wash vehicle
5.2	Drive and operate vehicle on route

5.3	Collect refuse and transport to landfill
5.4	Dispose of refuse at landfill
5.5	Provide customer service and education
6.0	Illegal Dump and Litter Removal
6.1	Manage service request and work order system
6.2	Perform abatements related to work orders
6.3	Perform routine abatements in “hot spot” areas
6.4	Dispose of abated waste appropriately
7.0	Dead Animal Collection
7.1	Manage service request and work order system
7.2	Perform dead animal collection related to work orders
7.3	Perform on-call dead animal collection services as needed
7.4	Clean up collection location as needed
7.5	Collect licenses, collars, etc for return to owner
7.6	Dispose of dead animals appropriately
8.0	Community Clean ups
8.1	Provide staff and resources for each community clean up event
8.2	Collect waste and/or recyclable at clean up staging areas
8.3	Dispose of waste and/or recyclables appropriately
8.4	Clean up collection staging area
9.0	Annual Christmas Tree Recycling Program
9.1	Collect Christmas trees on daily basis from designated sites throughout City during initial stage of program
9.2	Collect Christmas trees on an as-needed basis from the designated sites for 2 weeks after official close of the program
9.3	Perform illegal dump abatements at the designated collection sites during the program and for 2 weeks after official close of the program on an as-needed basis
9.4	Deliver collected trees to Greenery for recycling
10.0	Roll-off Container Services for City Departments
10.1	Manage service request and work order system
10.2	Deliver roll-off boxes for use by City departments as requested
10.3	Service roll-off boxes as needed
10.4	Dispose of waste and/or recyclables appropriately

Table 2: Work Breakdown Structure

The following paragraphs broadly describe these essential services and resources used to accomplish them.

Residential Solid Waste Collection

San Diego Municipal Code Section 66.0127 (People's Ordinance) requires the collection, transport and disposal of eligible residential refuse by City forces at least once each week. City forces have provided uninterrupted residential solid waste collection services since adoption of the People's Ordinance in May 1919. To meet state mandated landfill diversion requirements, City forces also provide residential curbside recycling and yard waste recycling collection programs.

San Diego's residential refuse and recyclable collection system is an essential public health service providing weekly collection of refuse from 289,000 residences, bi-weekly collection of recyclable materials from 248,000 residences, and bi-weekly yard waste collection from 190,000 residences resulting in over 26 million collection stops per year. San Diego's residential collection system is the second largest in the state and approximately equal to the total combined residential collection systems of all the other seventeen cities in San Diego County.

Residential refuse collection services, Monday through Friday are provided weekly, between the hours of 6:00 a.m. and 6:00 p.m. Recycling and yard waste are collected biweekly. Solid waste collection services are delayed one day following six City-observed holidays resulting in Saturday collection. Collection crews work on the other four City-observed holidays. Special/additional waste collection services include ADA Assisted Collection for certified disabled customers; assistance to law enforcement agencies with searches related to their investigations; and collection at City industrial yards, libraries, fire stations, and other City facilities.

Solid waste collection crews collect unlimited amounts of residential waste, recyclable materials, and yard waste at each residential stop when materials are placed in approved containers at designated collection points by 6:00 a.m. on collection day.

The City maintains a no-fault policy on returning to homes when missed collections are reported by 5:00 p.m. on the day following collection day; provides unlimited as-needed resources during disasters such as wildfires, floods, earthquakes, and landslides; and cleans up litter and fluid spills caused by collection vehicles. Pursuant to the People's Ordinance, residents are not charged a fee for solid waste collection services. However, residents are charged a user fee for replacement or additional automated refuse collection carts.

In San Diego, residential waste collection services are coordinated with the City's street sweeping schedules, and regularly coordinate with both slurry seal and road surfacing projects around the city. Equipment and staff in the waste collection programs are integral components of the City's emergency response plans.

It should be noted that ESD's Customer Service Phone Room supports multiple groups within the Environmental Services Department in addition to collections. Customer Service approves City services to new residential locations, approves ADA collections and, if the residential waste collection function is outsourced, would be the primary vehicle for determining if services are being provided to the standards required in the contract by receiving and processing customer complaints of missed or sub-standard services. This function should be considered part of the Continuing Government Operation and not included in the competition.

Automated Cart Services

The City of San Diego utilizes wheeled automated collection carts in its residential refuse, recyclable and ten percent of its yard waste collection services.

The inventory of City owned automated collection carts is currently about 600,000 containers produced by four manufacturers. Black containers are used for refuse, blue for recyclables and green for yard waste. Three sizes of automated carts are used by the City: 96, 64 and 32 gallon capacity, with the majority in use being 96 gallon cart size. The City is currently purchasing automated carts from the company under a contract valid until November 2016. Replacement carts are maintained at the Environmental Services Operations Station. Additional carts are ordered as the on-site inventory becomes nearly depleted, so that "just in time" deliveries maximize the use of limited storage space and minimize the investment in the inventory of automated carts.

The Automated Cart Services function provides for the purchase, assembly, sale, and delivery of new and replacement automated collection carts; retrieves damaged containers; repairs damaged container lids and wheels; exchanges containers for different sizes; searches neighborhoods for reported stolen containers; prepares damaged containers for warranty return or disposal (recycling); and coordinates and distributes automated carts in connection with collection program expansions and extension of service to new housing developments. Program support functions include scheduling customer appointments; designing efficient daily container delivery routes; maintaining and updating inventory records; loading and unloading containers from tractor trailers; maintaining container storage areas; "selling" containers and calculating replacement refuse container user fees, collecting and depositing those fees; and updating the container inventory database.

Residents may also purchase approved automated carts from a commercial outlet such as a home improvement store as an alternative to obtaining a City-provided container. The Automated Carts Services program does not deliver or maintain containers obtained from non-City sources. The program is closely associated with solid waste collection services. Less efficient and more costly manual (bag) solid waste collection is provided for a 45-day period for customers without a serviceable container underscoring the need to maintain efficient timely delivery service for replacement carts.

Street Litter Container Collection

The City collects waste from 738 City owned street litter containers in business districts throughout the city. Collection frequency varies based on the type and usage of the containers, with collection services provided seven days per week to preclude overflowing containers in the highest use areas. The City has recently installed a number of solar compacting litter containers in some of the highest usage areas and is monitoring their effectiveness to determine if collection frequencies could be reduced by further expanding their use. The program also repairs, replaces, moves, places additional, and paints the public litter containers to abate graffiti. The program occasionally supports public community art projects (decorating street litter containers) by writing and issuing permits in coordination with the Commission for Arts and Culture.

Illegal Dump and Litter Removal

This service involves the abatement of illegal dumping and litter within public right-of-ways throughout the City. Requests to remove items from the public right-of-way are received from a variety of sources including residents and City code enforcement officers. A work order is generated upon receipt of a service request, and the City will retain the responsibility for approving and issuing service requests. Crews are dispatched to the area associated with the work order to remove the reported waste. Staff also performs regular patrols of areas where illegal dumping is common. Alpha Project work crews are utilized for larger dump and litter removal services when additional labor is needed. In Fiscal Year 2012, 26,187 work orders related to illegal dump and/or litter removal were resolved.

Dead Animal Collection

The collection and removal of dead animals from public rights-of-way is provided 6 days a week with on-call services the remainder of the time (typically 3-4 times a month). In addition to responding to service requests, staff also removes dead animals they observe during the course of the day while completing formal work orders. Over 3,500 work orders for removal of over 1800 dead animals were completed in Fiscal Year 2012. All collected animals are disposed at the Miramar Landfill.

Dead Animal Collection serves a public health and safety function and is mandated by California Penal Code Section 372. Staff assists in ensuring roadway safety by removing the animals, and maintaining public health by properly collecting and cleaning the affected area, as needed. Staff also removes identification tags, if any, so owners may be notified, and keeps detailed logs of the collection location and animal type.

Community Clean-Ups

City-organized community clean ups are performed on weekdays and weekends. These events are closely coordinated with ESD code enforcement and recycling staff, Council offices, and community groups who partner to remove excess waste and especially bulky items that might otherwise end up in the public right-of-way. ESD's code enforcement staff manages the clean up event schedule. Field Operations assigns the necessary staff and equipment (e.g. roll off containers, packer trucks, stake bed trucks) to each clean up based on the anticipated turn-out. In Fiscal Year 2012, ESD performed 30 Saturday events, 54 weekday events and 24 limited area clean ups in the downtown area. To the

extent possible, recyclable materials are handled separately from waste and are sent to the appropriate facility for recycling.

Annual Christmas Tree Recycling Program

The City annually manages 15 Christmas tree collection sites around the City beginning December 26 for approximately 4 weeks. Trees are collected daily and recycled at the Miramar Greenery. At the end of the 4-week program, as-needed services are provided to remove additional trees and illegally dumped waste. Site set-up, media relations and outreach are handled by ESD Recycling Specialists and Public Information Specialists, and these activities are outside the scope of this competition.

Roll off Container Service for City Departments

ESD provides and services approximately ninety 40 cubic yard capacity roll-off containers to a variety of City Departments including Park and Recreation and Qualcomm Stadium. Field Operations staff services these containers on an as-needed basis upon receipt of a service request from a Department. In cases where Field Operations does not have the staff and/or resources available to meet a department's needs, there is an as-needed contract with an independent contractor to provide these services. This generally occurs during holidays where additional bins are needed at Park & Recreation sites or weekend events held at Qualcomm Stadium.

III. ANALYSIS OF ELIGIBILITY AND APPROPRIATENESS FOR COMPETITION

The PCA report should evaluate the eligibility and appropriateness for competition according to the following criteria:

- Inherently Governmental Determination - Is the function inherently governmental or task is "so intimately related to the exercise of the public interest as to mandate performance by City personnel";
- Legal Limitations - Are there any legal restrictions regarding a function, activity or task being competitively procured;
- Availability of Alternatives – Does a sufficient market exist and would the City be likely to receive at least two proposals;
- Efficiency & Economic Gain – Could savings be achieved through competitive procurement;
- Risks to Competition - Are there risks to competition (including service interruption, financial liability and damage to public trust or welfare) and how could the risks be mitigated (e.g., in the event of default); and
- Workload, Performance and Property Data – Do we currently have the information required to conduct a competition?

These criteria provide the framework for assessing the eligibility and appropriateness for Solid Waste Collection and Support Services to proceed to competitive procurement immediately or at a later date.

A. Inherently Governmental Determination

According to the Managed Competition Ordinance, inherently governmental functions are defined as “those services so intimately related to the exercise of the public interest as to mandate their performance by City employees.”

The collection of solid waste is a critical function for local government and its residents with public health, safety and environmental implications. However, the residential solid waste collection and its support services functions, in general, are not inherently governmental functions as demonstrated by all other cities in San Diego County using private haulers via exclusive franchises to accomplish this.

B. Legal Limitations

If there are legal limitations (e.g., City Charter, State ordinances) that preclude the City from allowing an outside entity to perform a function on its behalf, this should be identified as part of the PCA.

Any code enforcement activities associated with the City’s solid waste and recyclables collection system and the scheduled community clean up events is an inherently governmental function. (See City Attorney Memorandum of Law regarding Enforcement Functions dated June 16, 2011.)

The People’s Ordinance governs the collection, transportation, and disposal of residential and nonresidential refuse generated in the City of San Diego (SDMC Section 66.0127). It was first adopted by the voters in 1919 and was last amended by the voters in 1986. In part, Section 66.0127(c)(1) reads “...Residential Refuse shall be collected, transported and disposed of by the City at least once each week and there shall be no City fee imposed or charged for this service by City forces.” The phrase “City Forces” is not defined in the People’s Ordinance, the City Charter or the Municipal Code. It has been used in certain contexts to refer only to City employees and in other contexts to include independent contractors working under the direction of City employees. So, the meaning of “City Forces” as used in the People’s Ordinance is unclear. However, in a Memorandum of Law dated August 31, 2006, the City Attorney’s Office concluded that the People’s Ordinance does not preclude the City from hiring private contractors to provide waste collection services to eligible residential customers. Therefore, the People’s Ordinance does not impose legal limitations on this competition.

Pursuant to the Facility Franchise Agreement between the City and Sycamore Canyon Landfill Systems, LLC, a subsidiary of Republic Services, Inc., the City has agreed to utilize the Sycamore Canyon Landfill or the South Bay (Otay) Landfill on a “put or pay basis” for disposal at the “Contract Rate,” as defined in the agreement, of an aggregate of 75,000 tons of “Qualified City Waste,” as defined in the agreement, in each rolling three year period until the “Miramar Landfill Closure,” as defined in the agreement, with a minimum delivery of 23,750 tons in any given City fiscal year. Any proposed outsourcing of refuse collection services must take into account and adequately address the City’s rights and obligations relative to this term of the franchise agreement.

The City also is a party to a revenue-generating contract with IMS Recycling Services, Inc. and Allan Company (collectively "Contractor") for the processing, transporting, and marketing of commingled curbside recyclables. This contract extends through June 30, 2019. In accordance with the agreement, the City delivers curbside recyclables it collects to one of two recycling sites owned and operated by Contractor. In exchange, the City receives revenues and waste diversion credits from the Contractor. Any proposed outsourcing of refuse collection services must take into account and adequately address the City's rights and obligation under this agreement.

C. Availability of Alternatives

Another important element of the competition criteria is identifying whether a potential market exists for the function under review. The Managed Competition Guide states that the Managed Competition Independent Review Board will not recommend awarding a contract to an independent contractor unless at least two bids by independent contractors for the service subject to competition were received.

Residential Solid Waste Collection

The size of San Diego's residential collection system, 289,000 customers, may limit the number of companies that have the financial strength and experience to undertake a contract of this magnitude. However, there are at least five national or regional collection companies of sufficient size and experience to successfully operate a collection system of the size and complexity of San Diego's residential collection system. These companies include three companies currently operating in the City. The following are examples of firms considered to have sufficient experience and financial capabilities to successfully operate the City's residential collection system with minimal risk:

- CR&R Waste and Recycling Services
- EDCO Disposal Corporation
- Recology, Inc. (formerly Norcal Waste Systems, Inc.)
- Republic Services/Allied Waste Management, Inc.
- Waste Connections, Inc.
- Waste Management, Inc.

Additionally, there are a number of regional haulers that could be considered to have the necessary experience and financial strength to undertake the contract; however, they currently operate in limited geographic areas in the mid-west, Texas and Gulf states, mid-Atlantic area, Pennsylvania, or Florida and adjacent southern states and have no current infrastructure or support companies in California. Such regional companies could respond to an RFP to operate the City's collection system for a five year period but would have more work to do to set up local San Diego operations.

Appendix 1, Competition Research, provides extensive information on the markets and the companies and the larger regional haulers discussed above.

Automated Cart Services

A viable market exists to provide container inventory management, delivery and maintenance services. In cases where container manufacturers provide these services to other public entities, the contracts tend to require the use of that manufacturer's containers. However, the City maintains a mix of containers from four different manufacturers in its inventory. The City's automated container fee with its pro-rated value for containers less than 10 years of age is a model that is unique to San Diego. The City has an existing contract for the purchase of automated collection carts at a very favorable price that extends through November 2016.

Solid Waste Support Services

The vendors listed as potential Solid Waste Collection service providers could also perform the services associated with the Solid Waste Support Services functions using company staff or by subcontracting. Although the Support Service functions comprise a variety of different tasks, they are not outside of the scope of services that these private companies already provide to other municipalities. There are also a number of smaller, local franchised and non-franchised companies that could be service providers for the more specialized tasks (i.e., dead animal collection, illegal dump and litter removal) with whom a prime contractor could sub-contract. Companies in San Diego, including San Diego Haul, Got Junk, and Debris Box, provide property clean up and waste removal services. In addition, D&D Disposal Services provides contractual dead animal removal services for the County of San Diego, and Speedy Animal Control provides dead animal removal services for private clients in San Diego and are both potential sub-contractors to provider dead animal collection services.

D. Efficiency & Economic Gain

Efficiency Gain

In some instances, there may be known industry standards for efficiency. In these instances the PCA reviews performance against standards to determine if there is opportunity for improvement. In other instances, there are no ready standards and/or the City does not have good/complete data; in these instances, economic information can serve as an indicator.

In the solid waste management field, there are very limited standards and benchmarks. One highly circulated 1996 Reason Foundation report, "Solid Waste Management A Guide to Competitive Contracting for Collection," cited several studies related to cost savings from privatization.

A 1994 Reason Foundation study showed the City of Los Angeles costs to be 30% higher than costs in neighboring cities with private contracting of waste services. A 1984 study of 20 California cities demonstrated savings of 28 to 42 percent from privatization.

For the core residential collection services, benchmarks include homes serviced per hour, tons collected per crew year, etc. However, because of the significant differences between collection systems in terms of homes served, topography, traffic, distance to disposal facilities or transfer stations, types of equipment used, etc., these are generally

considered to be "soft" benchmarks to be used as guides to determine system efficiency rather than "hard" numeric standards. By comparison to the benchmarks published in a 2008 Solid Waste Association of North America study *"The Benchmarking of Solid Waste Collection Studies"* which evaluated 17 municipal collection systems (including the post managed competition City of Charlotte) San Diego's performance benchmarks met or exceeded those in the study.

For the support services, industry standards from which to form the basis for further efficiency gain analysis were not identified. Therefore, whether or not efficiencies would be gained by a competitive procurement cannot be determined without conducting the procurement.

Economic Gain

The economic gain analysis is aimed at determining whether there is a possibility that economic gains could be realized through a competitive procurement process, recognizing that actual information cannot be known until competitive procurement is undertaken. The determination is based on comparing the cost of performing the function by City forces with the cost of purchasing the same level of service from an outside entity.

The baseline cost estimate from the Budget Summary Reports for Fiscal Years (FYs) 2011 – 2013 served as a foundation for this assessment. Included in the baseline cost estimate are both budget and actual expenditures for each fiscal year (current fiscal year is the year-to-date expenditures which are annualized to provide a comparable frame of reference). Table 3 details the baseline cost estimate for all of the solid waste Collection programs including the support services functions and breaks the expenses into Personnel Expenses (PE), which include salary and fringe, and Non-personnel Expenses (NPE), which include supplies, materials, services, equipment rental, energy resources, data processing, and facility costs.

	Fiscal Year 2013		Fiscal Year 2012		Fiscal Year 2011	
	Budget	Projected Exp.	Budget	Actual Exp.	Budget	Actual Exp.
Total PE						
Total NPE						
Total Expenses						

Table 3: Solid Waste Collection Programs Baseline Cost Estimate⁴

In the solid waste management field, there are very limited standards and benchmarks, and the most widely available benchmarks relate to cost/price, i.e., are useful for determining potential for economic gain. One highly circulated 1996 Reason Foundation report, "Solid Waste Management A Guide to Competitive Contracting for Collection," cited several studies related to cost savings from privatization. A 1994 Reason

⁴ Source: City of San Diego Financial Management Information System (budget vacues) and City of San Diego SAP ERP Central Component Reporting Tool

Foundation study showed the City of Los Angeles costs to be 30% higher than costs in neighboring cities with private contracting of waste services.

One very recent example of a solid waste collection competition resulted in significant savings. In 2012, the City of Annapolis, MD used managed competition to determine if its collection services could be provided at a lower cost by outsourcing the service. As a smaller city with a population of 38,394 with 17,845 residential units, the entire system was subject to the managed competition process. While the City employee proposal team proposed substantially reduced costs, an independent contractor proposal was substantially lower than the City team's bid. As a result, the City outsourced its collection services effective September 10, 2012 and, as shown in Table 4, projects to achieve substantial savings over the seven year contract term.

City of Annapolis: Solid Waste Cost Comparison

Contract Year	Fiscal Year	City Option	Contract Option
1	2013	\$2.90M	\$2.44M
2	2014	\$2.92M	\$1.91M
3	2015	\$2.92M	\$1.91M
4	2016	\$2.92M	\$1.91M
5	2017	\$2.92M	\$1.91M
6	2018	\$2.92M	\$1.91M
7	2019	\$2.92M	\$1.91M
Total	-	\$20.42M	\$13.90M

Table 4: 2012 Annapolis, MD Collections Competition Savings⁵

Appendix 1 to this document, Competition Research, provides extensive analysis of the marketplace. The seventeen incorporated cities in San Diego County provide collection services through exclusive franchise agreements with private haulers for the collection of both residential and commercial waste. Table 5 below compares the 2012 rates per household per month charged to residents for residential waste collection services in the seventeen other cities in San Diego County and, for comparative purposes, extends those rates to the number of units serviced by the City's residential solid waste collection system to calculate an equivalent City of San Diego contract expense based on each of the contracts.

⁵ Source: <http://www.ci.annapolis.md.us/Government/Departments/Public/Reports/Competition.pdf>

City	Housing Units	Solid Waste Collection Provider	Fee Per Household Per Month (without Pass Through Fees)	Calculated Annual Cost to Provide Service to 289,000 Units at Current Fee Per Household per Month
Carlsbad	43,844	Waste Management	\$14.88	\$51,603,840
Chula Vista	78,244	Republic/Allied	\$15.22	\$52,782,960
Coronado	9,562	EDCO	\$16.66	\$57,776,880
Del Mar	2,542	Waste Management	\$17.02	\$59,025,360
El Cajon	35,644	Waste Management	\$17.65	\$61,210,200
Encinitas	24,877	EDCO	\$18.04	\$62,562,720
Escondido	47,682	EDCO	\$15.66	\$54,308,880
Imperial Beach	9,860	EDCO	\$16.76	\$58,123,680
La Mesa	25,614	EDCO	\$16.98	\$58,886,640
Lemon Grove	8,868	EDCO	\$16.45	\$57,048,600
National City	15,787	EDCO	\$15.14	\$52,055,520
Oceanside	64,758	Waste Management	\$17.49	\$60,655,280
Poway	16,364	EDCO	\$17.46	\$60,551,280
San Diego	289,000	Municipal Forces	N/A	See Baseline Cost
San Marcos	27,744	EDCO	\$16.71	\$57,950,280
Santee	19,837	Waste Management	\$17.22	\$59,718,960
Solana Beach	6,521	Waste Management	\$19.13	\$66,342,840
Vista	30,716	EDCO	\$17.82	\$61,799,760
		Mean Average	\$16.83	\$58,366,440

Table 5: 2012 Solid Waste Rates Survey⁶

Based on the analysis of existing City program costs and rates paid by all of the other cities in San Diego County, it appears unlikely that a managed competition in San Diego would achieve the higher end of the 10 to 25 percent level of savings cited in the Reason Foundation reports. However, the competitive marketplace summarized in Table 5 indicates that there may be room to achieve economic gain via a solid waste collection competition.

The City may realize economic gains by contracting for Dead Animal Collection services. An estimated quote was received several years ago from D&D Disposal Services that was competitive with the City's current costs. The costs of performing the remaining support services tasks are considered proprietary information by outside vendors and were not available. As a result, it is difficult to conclude that economic gains can be realized for the solid waste support functions. However, the economies of scale that the larger, regional haulers have established could result in some economic gains.

E. Risks to Competition

Risk analysis considers the degree to which contracting out a function would expose the City to greater risk or liability, including service interruption, health and safety issues,

⁶ Source: San Diego County Technical Advisory Committee for Solid Waste

financial liability, and damage to public trust. The following potential risks to competition are identified, along with risk mitigation options:

#	Solid Waste Collections Service Risk	Risk Type	Level of Risk	Magnitude of Impact	Possible Mitigation
1	Notwithstanding the opinion by the City Attorney's Office in 2006, that the People's Ordinance does not preclude contracting out refuse collection services, someone may challenge the managed competition of refuse collection services in court.	Delay of implementation	Medium	Low	Defense of any legal challenge
2	The City has a substantial investment in capital equipment (refuse/recycling packers, specialized vehicles, and other equipment). If a commercial provider opted to use their own equipment, the City would have to sell the current equipment at a depreciated rate. In addition, the City would still need to satisfy its financial obligations for financed vehicles.	Financial liability	Low	Low	<ul style="list-style-type: none"> - It is unlikely that any commercial proposer has or can obtain a large enough fleet to start work in a timely manner. - Consider these costs when evaluating proposals that make surplus the City's fleet
3	In the event of property damage, vehicle accidents, and personal injuries associated with refuse collection services, if provided by an independent contractor, the City is likely to be named as party to any claim and may expect to incur costs associated with the resolution of such claims.	Financial liability	Medium	High	<ul style="list-style-type: none"> - Require appropriate safeguards to protect the City's interests, such as having the independent contractor indemnify the City and hold it harmless; provide insurance meeting the City's requirements and identifying the City as an additional insured; or other financial security mechanisms. - Require the provider to have procedures in place to mitigate the claims paid out by the City both in number and value. - Establish a process to determine fault or responsibility if any cost sharing of claim expenses is envisioned.
4	A private contractor may provide only services strictly defined in the SOW and demand high payments for emergency or other high priority work.	Financial liability	Medium	Medium	To the extent possible, the SOW will require work to be performed on a fixed price or other non-variable basis. The SOW will include contingencies for emergency services within the requirements.

#	Solid Waste Collections Service Risk	Risk Type	Level of Risk	Magnitude of Impact	Possible Mitigation
5	A private contractor may fail in its operation. If this does occur, the City will be unable to stand up a force quickly to assume operations.	Service interruption	Low	Medium	Award contract to another contractor if current contractor fails. The Council's adopted Managed Competition Guide allows for services to be awarded to another contractor for up to one year in such circumstances, allowing time for a more permanent service solution to be put in place.
6	Many other collections-related contracts have durations of 6 to 10 years so that contractors are able to fully depreciate the purchase of equipment in line with their projected useful life cycle. The maximum length of City contracts is five years, so the City risks having to pay more to account for less aggressive contractor pricing to address this risk.	Other	Low	Low	It is unlikely that any commercial proposer has or can obtain a large enough fleet to start work in a timely manner and will propose to use the City's equipment. If the contractor uses their own equipment, and it's not fully depreciated, they could sell it for its residual value, if not needed elsewhere in their operations.
7	Contracting for the entire City's collection services rather than bidding areas of the City by zones may limit the number of qualified bidders to a smaller number of larger firms,	Other	Low	Low	- The reduced administrative expenses of managing one versus multiple contracts will offset impacts of this risk.

Table 6: Solid Waste Collection Risk Assessment

F. Workload, Performance, and Property Data Assessment

Workload, performance, and property data are critical to developing a Statement of Work (SOW), should a function move to competitive procurement. The range and depth of workload/performance/ property data that are available (or not) also are important factors in determining a future competition schedule. In conducting this assessment, the following criteria were evaluated to establish the current level of data available.

Question	Explanation	Status
Does workload data exist for the function for the last fiscal year?	Indicates whether or not the annual workload for the function is available or easily obtainable. For some functions, there may not currently be a formal collection process for workload information. For those functions, a data collection mechanism and process will need to be defined and developed.	Yes
Is workload tracked using an automated system?	Identifies any records, spreadsheets, logs, or other tracking mechanisms that are currently used to collect workload data.	Yes

Question	Explanation	Status
Has workload been tracked for at least the last three years?	Indicates whether workload is changing or is relatively consistent from year to year. Workload that is increasing, decreasing, or fluctuating from year to year might affect the amount of data and level of effort that will be required to estimate workload.	Yes
Is workload tracked consistently?	Identifies whether tracking systems are collecting workload output data in a timely and accurate fashion. A determination must be made regarding the overall reliability of the data tracked in the existing systems.	Yes
Can workload be accurately projected into the future?	Examines whether collected data is sufficient to ensure the future statement of work accurately addresses the function's true requirements and limits the potential for modifications.	Yes ⁷
Is the performance level of the City workforce actively tracked?	Identifies whether adequate performance information is available to determining the level of performance in a future competition.	Yes
Is there a property tracking system?	Identifies whether government property is properly tracked in order to maintain proper inventory control and determine its disposition in a potential competitive procurement.	Yes

Table 7: Workload, performance & property data assessment

The result of the workload, performance, and property systems assessment for Solid Waste Collection programs is that a system is available for all workload, performance, and property data required. Additionally, the data system is evaluated at Level IV according to the PCA data call, which states that a system(s) is available for all workload and workload counts are considered accurate and reliable (with very few data entry errors). There is little effort required to validate the data.

IV. CONCLUSION

As determined through this pre-competition assessment, Solid Waste Collection and its Support Services are deemed to be eligible and appropriate for competitive procurement. The pre-competition assessment team determined that these functions:

- Are not inherently governmental;
- Are not limited legally from being procured from an outside source;
- May be procured in an established competitive market;
- Do not face significant risks that cannot be mitigated through the contracting process; and
- May have the potential for economic gain.

⁷ While extensive records of past tonnages are available, projecting waste generation rates and waste composition is not an exact science. Waste generation (tonnage) varies by season and may be affected by changes in weather patterns such as "El Nino" conditions, economic changes including unemployment and housing factors, and socio-political issues such as public response to recycling, diversion and waste reduction policy changes.

Appendix 1: Competition Research

A. Solid Waste Collections Competition in Large Cities

Literature suggests that over 50% of the nation's residential collection systems are operated by private hauling companies under contracts or franchises issued by local governments. However, when the size of the jurisdiction is considered, the numbers change significantly. Smaller cities are primarily serviced by private haulers with government operated collection systems being the exception. With larger cities, the opposite is true as shown in the table below describing the collection systems for the nation's 25 largest cities.

Size Rank	City	Population 2010	Residential Collection System Operator
1	New York, NY	8,175,133	City employees
2	Los Angeles, CA	3,792,621	City employees
3	Chicago, IL	2,695,598	City employees
4	Houston, TX	2,099,451	City employees
5	Philadelphia, PA	1,526,006	City employees
6	Phoenix, AZ	1,445,632	City employees
7	San Antonio, TX	1,327,407	City employees
8	SAN DIEGO, CA	1,307,402	City employees
9	Dallas, TX	1,197,816	City employees
10	San Jose, CA	945,942	Private contractor
11	Jacksonville, FL	821,784	City employees & private contractor
12	Indianapolis, IN	820,445	City employees & private contractor
13	San Francisco, CA	805,235	Private contractor
14	Austin, TX	790,390	City employees
15	Columbus, OH	787,033	City employees
16	Fort Worth, TX	741,206	City employees
17	Charlotte, NC	731,424	City employees
18	Detroit, MI	713,777	City employees
19	El Paso, TX	649,121	City employees
20	Memphis, TN	646,889	City employees
21	Baltimore, MD	620,921	City employees
22	Boston, MA	617,594	City employees
23	Seattle, WA	608,660	Private contractor
24	Washington, DC	601,723	City employees
25	Nashville-Davidson, TN	601,222	City employees

Of the top 25 cities, two (San Francisco and Seattle) have historically used private haulers to provide collection services, and four (Phoenix, Jacksonville, Indianapolis and Charlotte) have utilized used a managed competition process to select their residential collection service provider. While Phoenix still uses the process, the City has won the last three competitions and is the only current service provider for the entire city. While Charlotte won all recent competitions, the City determined the administrative cost of maintaining separate cost accounts and equipment ownership for each of the zones/"contracts" and the lack of flexibility in transferring personnel and equipment

between zones to meet daily operational requirements was counterproductive. As a result, Charlotte no longer uses managed competition for residential solid waste collection services and now relies on a process similar to San Diego's Bid-to-Goal Program to achieve the greatest cost savings and most economical governmental organization.

B. Southern California Comparative Residential Collection Fees

Because the costs of residential collection systems is influenced by so many variables (size or number of customers, geographic area, topography, population density, roadways, distance to disposal or transfer facilities, cost of disposal or transfer, services provided, etc.), it is not possible to directly compare the fees charged between cities to determine accurately which has the most economical and efficient collection system. However, if a large number of systems are compared on the fee charged to provide comparable collection services, it is possible to compare relative cost effectiveness.

The following table summarizes an April, 2012 survey conducted by ESD staff of all cities in California with populations greater than 85,000 plus all cities in San Diego County. These monthly collections fees are based on a weekly curbside refuse collection using a 96 gallon automated trash collection cart and unlimited weekly or bi-weekly curbside collection of recyclable materials and green wastes. The rates were either posted on the city's web site or obtained from city staff or the franchised hauler's staff. The majority of the cities using a private hauler for residential collection services use an exclusive franchise which allows only that hauler to provide both residential and commercial collection services within the jurisdiction.

2012 Residential Solid Waste Collection Service Providers and Fees for Southern California Cities >85,000 Population and All San Diego County Cities

No.	City/County	Population	Service Provider	Fee/ Month
1	Los Angeles, LA	3,810,129	City Forces	\$36.32
2	San Diego, SD	1,311,882	City Forces	No Fee
3	Long Beach, LA	463,894	City Forces	\$22.80
4	Anaheim, Orange (OR)	341,034	Republic	\$19.53
5	Santa Ana, OR	325,228	Waste Mgmt.	\$18.73
6	Riverside, Riverside	306,779	City Forces	\$21.31
7	Chula Vista, SD	246,496	Republic	\$20.18
8	Irvine, Orange	219,156	Waste Mgmt.	\$11.81
9	San Bernardino, SB	211,076	City Forces	\$22.84
10	Oxnard, Ventura	199,722	City Forces	\$29.92

11	Fontana, SB	198,456	Burrtec	\$24.14
12	Moreno Valley, Riv.	195,216	Waste Mgmt.	\$21.21
13	Glendale, LA	192,473	City Forces	\$18.34
14	Huntington Bch, OR	190,377	Rainbow	\$18.96
15	Santa Clarita, LA	176,971	Waste Mgmt.	\$18.37
16	Garden Grove, OR	171,327	GGSD	\$19.99
17	Rancho Cucamonga, SB	168,181	Burrtec	\$21.88
18	Oceanside, SD	168,173	Waste Mgmt.	\$23.21
19	Ontario, SB	165,392	City Forces	\$29.48
20	Lancaster, LA	157,795	Waste Mgmt.	\$24.82
21	Corona, Riv.	153,649	Waste Mgmt.	\$19.05
22	Palmdale, LA	153,334	Waste Mgmt.	\$19.97
23	Pomona, LA	149,243	City Forces	\$26.37
24	Torrance, LA	145,927	City Forces	\$26.08
25	Escondido, SD	145,196	EDCO	\$18.13
26	Pasadena, LA	138,915	City Forces	\$37.18
27	Orange, OR	136,995	CR&R	\$11.98
28	Fullerton, OR	135,574	MG Disposal	\$18.02
29	Thousand Oaks, VEN	127,557	Waste Mgmt.	\$32.05
30	Simi Valley, VEN	125,026	Waste Mgmt.	\$25.49
31	Victorville, SB	117,219	Waste Mgmt.	\$20.17
32	El Monte, LA	113,785	Valley Vista	\$25.11
33	Downey, LA	112,103	Cal Met	\$14.31
34	Costa Mesa, OR	110,146	CR&R	\$19.95
35	Inglewood, LA	110,028	Waste Mgmt.	\$11.31
36	Ventura, VEN	107,124	Harrison	\$29.87
37	Carlsbad, SD	106,555	Waste Mgmt.	\$18.87
38	Norwalk, LA	105,808	Consolidated	\$20.79
39	West Covina, LA	106,400	Athens	\$26.83
40	Murrieta, Riv	104,459	Waste Mgmt.	\$18.08
41	Burbank, LA	104,304	City Forces	\$40.10

42	Temecula, RIV	101,657	CR&R	\$18.50
43	El Cajon, SD	100,116	WM	\$20.65
44	Santa Maria, SNTA B	100,062	City Forces	\$28.91
45	Rialto, SB	100,021	EDCO	\$23.96
46	Compton, LA	96,925	Pacific Coast	\$18.86
47	South Gate, LA	94,431	Waste Mgmt.	\$15.44
48	Vista, SD	94,431	EDCO	\$19.22
49	Mission Viejo, OR	93,483	Waste Mgmt.	\$12.11
50	Carson, LA	91,548	Waste Mgmt.	\$19.27
51	Santa Monica, LA	90,174	City Forces	\$41.88
52	Westminster, OR	89,937	MCSO	\$14.75
53	Santa Barbara, SB	89,253	Marborg	\$37.50
54	San Marcos, SD	84,734	EDCO	\$20.39
55	Encinitas, SD	59,910	EDCO	\$18.77
56	National City, SD	58,785	EDCO	\$16.64
57	La Mesa, SD	58,041	EDCO	\$18.42
58	Santee, SD	54,183	Waste Mgmt.	\$19.30
59	Poway, SD	48,155	EDCO	\$20.11
60	Imperial Beach, SD	26,459	EDCO	\$26.37
61	Lemon Grove, SD	25,478	EDCO	\$19.77
62	Coronado, SD	23,011	EDCO	\$17.67
63	Solana Beach, SD	12,945	Waste Mgmt.	\$22.06
64	Del Mar, SD	4,187	Waste Mgmt.	\$18.91

C. Alternate Service Providers

For the purposes of the PCA, the following list of 11 potential service providers includes:

- Major national hauling companies and larger regional hauling companies that operate in California
- Larger regional waste hauling companies operating in the south, mid-west, mid-Atlantic area, and the northeastern states.

Advanced Disposal Services, Inc. is a privately held company founded in 2000 and headquartered in Jacksonville, FL that provides residential and commercial collections

services, transfer stations, recycling services and operates landfills in Alabama, Florida, Georgia, Mississippi, South Carolina, North Carolina, Maryland, New Jersey, New York, Pennsylvania, and Massachusetts. The company operates over 900 collection vehicles.

Annual Revenue:	\$310 million in 2010 (Projected)
Employees:	1,569
Customers:	775,000 residential and 48,000 commercial

CR&R is a privately held, family owned business founded by Cliff Ronnenberg in Stanton, CA in the 1960s. It has grown into a refuse collection and recycling company with collection operations, transfer stations and MRFs in five counties of Southern California. CR&R reports that it serves 2.5 million people and 5,000 businesses through refuse collection services in 30 cities and recycling programs in 100 cities in Orange, Los Angeles, Riverside, San Bernardino and Imperial counties. CR&R is known for the quality and excellent condition of its collection vehicles and transfer vehicles and the exclusive use of Peterbilt trucks.

Annual Revenues:	Not reported as privately held company.
Employees:	Not reported
Customers:	See above

EDCO is the largest hauler in San Diego County servicing 12 cities and 20 unincorporated communities. EDCO is a privately held, family owned company founded by Ed Burr in La Mesa in 1967. It has grown to the largest family held company in California with operations in San Diego, Orange, Riverside, San Bernardino and Los Angeles counties.

Annual Revenues:	Not reported as privately held company
Employees:	Not reported
Customers:	450,000 residential and 25,000 commercial
Operating Area:	Four counties and 30 cities
Other Services:	4 MRFs, 6 Transfer Stations

Recology, formally known as Norcal Waste Services, Inc., was founded as an employee scavenging company in San Francisco in 1920. It is now the largest employee owned solid waste company with operations in four states servicing 113 communities.

Annual Revenues:	\$530 million (2010 projected)
Employees:	2,100
Customers:	670,000 residential and 95,000 commercial

Republic Services is the second largest waste management company in the US, having acquired BFI, Allied Waste Industries and Consolidated Waste Services. Republic operates residential and commercial collection companies, transfer stations and landfills and seeks to vertically integrate operations so all functions from collection through final disposal are done by Republic companies. They are the operators of all landfills in San

Diego, with the exception of the City's Miramar Landfill, and are the franchised hauler for the City of Chula Vista.

Annual Revenue:	\$8.1 billion in 2010
Employees:	30,000
Customers:	Serves over 800 communities in US and Puerto Rico
Areas Served:	National, strong presence in SD, LA, and Imperial counties

Rumpke Consolidated Companies, Inc. is a privately held regional company headquartered in Cincinnati, OH and providing residential and commercial collection, transfer stations and landfill disposal in Ohio, Kentucky, Indiana and West Virginia.

Annual Revenue:	\$396 million in 2009
Employees:	2,200
Customers:	Not Available

Waste Connections is the third largest collection company. It was founded in Folsom, CA, but recently moved its corporate headquarters to Houston, TX. Its operations are divided into three operating regions with a large number of companies in California.

Waste Connections' web site states the company operates in mostly exclusive franchise or secondary markets in 30 states. The company states it prefers to avoid large urban areas because they are highly competitive and offer less return to the company.

Annual Revenue:	\$1.51 billion in 2011
Employees:	5,500
Services:	147 collection operations, 59 transfer stations, 40 recycling operations and 47 landfills.

Waste Industries USA, Inc. is a privately held company founded in Raleigh, NC in 1972 providing residential and commercial collection services, long haul trucking, transfer stations, recycling operations and landfill services in Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia and Delaware.

Annual Revenue:	\$366 million in 2009
Employees:	1,688
Customers:	36 collection operations

Waste Management, Inc. is the largest provider of solid waste services in the United States, and perhaps the world, and is currently a major hauling company in San Diego County.

Annual Revenue:	\$12.52 billion in 2010.
Employees:	45,000
Customers:	20 million residential and commercial customers
Areas Served:	Entire US, strong presence in CA and San Diego County

Equipment: Over 1,000 natural gas powered trucks plus '000s of diesel powered trucks

Waste Services, Inc. is a multi-regional, integrated solid waste services company providing collection, transfer, landfill disposal and recycling services for residential and commercial customer in the United States and Canada. Waste Services currently has operations in Florida and Eastern and Western Canada, with 33 collection operations, 18 transfer stations, 12 recycling facilities and 7 landfills.

Annual Revenue: \$490 million 2010 (Projected)
Employees: 2,090
Customers: 7.2 million residential and 86,000 commercial

WCA Waste Corporation is a vertically integrated, non-hazardous solid waste management company providing waste collection, transfer, processing and disposal services in the south and central regions of the United States with operations in Alabama, Arkansas, Colorado, Florida, Kansas, Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee and Texas. WCA operates 28 collection operations, 22 transfer stations, and 24 landfills.

Annual Revenue: \$225 million in 2009
Employees: 1,050
Customers: 333,000 residential and commercial combined